



U.S. Export Enforcement Examples

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Proliferators Attack Export Control Weaknesses

Supplier

Agent/
Broker

Intermediate
Consignees

End User

- Some suppliers willing to export illegally, out of ignorance, for economic reasons, or to provide clandestine assistance
- Inaccurate or vague commodity descriptions on documents complicate enforcement

- Agents or brokers of foreign procurement networks obtain goods, often with circuitous buying patterns, and ship without license
- They disguise or falsify the final recipient country and/or the end user
- They exploit countries with ineffective export controls or other loopholes

- Intermediate consignees divert shipments in transit (typical smuggling tactics)
- They might use small companies or even universities to acquire facilities, equipment, technology and training
- They often use cover names and front companies to divert items to unknown ultimate end-users

- Illegal weapons end-users purchase dual-use or uncontrolled commodities, in addition to targeted items, to hide their weapons procurements
- They provide false or misleading end-use statements on documents or on websites to disguise their weapons activities



Export Control Investigations

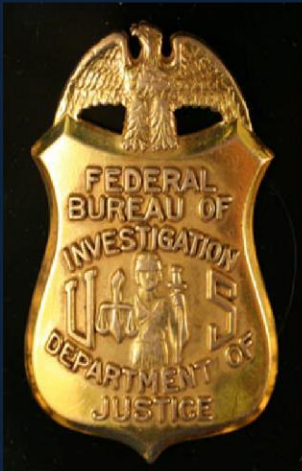
Regional Trends

- Use of Third Parties
 - Avoid Detection/Conceal Identity
- Circuitous Routing (unnecessary stops)
- Documents Trail
 - End-User Statements
 - Shipping /Customs
 - Invoices
 - Emails
 - Financial Transactions



- Specific Intent or Willfulness – the exporter intentionally or willfully caused the export to occur in violation of United States export laws & regulations.

Joint Investigation Case Study: ARC International, LLC





Case Background

- Initiated from MicroPilot to the Canadian Department of Foreign Affairs and International Trade (DFAIT)
- DFAIT to the U.S. Department of State
- Department of State to the Department of Commerce, Office of Export Enforcement
- Lead to OEE's SAC Washington field office
- OEE/FBI initiate joint investigation

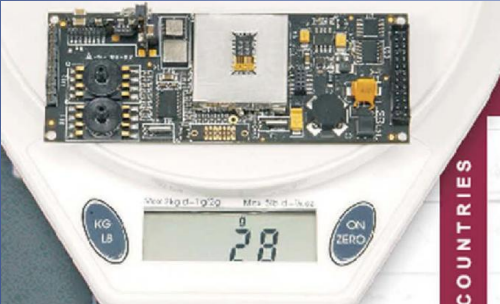


Dual-Use Commodity In Question

- Model MP2028s are autopilots designed for use in Unmanned Aerial Vehicles (UAV)
- MP2028s are controlled in Canada's Export Control List under 1-9.A.12.B
- This entry corresponds directly to U.S. Commerce Control List and ECCN 9A012.b.2
- Canada and U.S. require export license authorization for export to the People's Republic of China
- No License/Permit required for export from Canada to the United States



Commodity (Cont)



MP2028^g

Miniature UAV Autopilot

FEATURE RICH

- world's smallest UAV autopilot; 28 grams, 4 tin by 10 cm
- GPS waypoint navigation with altitude and airspeed hold
- completely independent operation including autonomous takeoff, bungee launch, hand launch and landing
- powerful command set
- fully integrated with 3-axis gyros / accelerometers, GPS, pressure altimeter, pressure airspeed sensors, all on a single circuit board
- extensive data logging and telemetry collects the data you need
- UAV configuration wizard and installation video simplifies setup and speeds time to market



includes HORIZON™ ground control software

www.micropilot.com
info@micropilot.com
 +1.204.244.5555

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Case Time Line

- July 16, 2008 – MicroPilot exports 20 MP2028s to ARC International, located in the United States
- July 27, 2008 - Harold Hanson reports the shipment as missing
- August 22, 2008 – MicroPilot receives request for technical support from Chinese company
- October 5, 2008 – OEE and FBI initiate a joint investigation

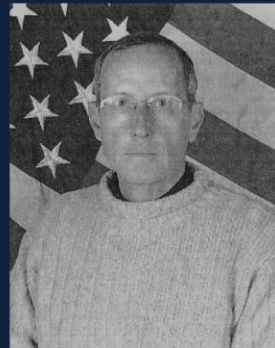


Investigative Actions

- Federal search warrants authorized to obtain additional information.
- Search warrant executed on the business address
of ARC International produces information suggesting actual UAV end-use
- Interviews of Defendants Harold Hanson and Nina Hanson produce additional information regarding location of autopilots.



U.S. Subjects (Harold and Nina Hanson, a.k.a ARC international)





Questions about End-Use

- Chinese End-user claimed the MP2028s were for use in flying model aircraft
- Defendant Harold Hanson later claimed that MP2028s were for:
 - use in flying model jet aircraft
 - use in UAVs for thunderstorm/tornado research
 - use in UAVs for recording ice pack melt in the Arctic

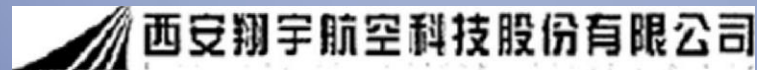


Xi'an XiangYu End-Use

- *“Xi'an XiangYu Company is a civil aviation repair station and flying club which is founded at 1995 and located in Xi'an city.”*
- *“All the MicroPilot autopilots we intended to purchase will be only installed on model airplanes....”*
- *“Our entire model airplanes would not be used for military purposes....”*



Information from Search Warrant



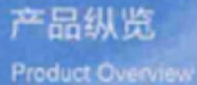
UAV will play the key role in the future war

Used for battlefield reconnaissance, taking picture, electro-antagonize, anti-radiance and long distance attack.

Used for minefield survey, artillery fire adjustment, battle damage assessment, battlefield management, communication and data relay, digital mapping, flight route reconnaissance, nuclear weapon exploring, psychological warfare, electron warfare, radar disturbing suppressing, target acquisition, and city warfare.

Used for physical geography mapping, atmospheric scientific research, forest fire prevention, paddy cultivation tasks and various civil applications.

To be one of **main important** arming for reconnaissance, surveillance and target acquisition in the battle of Anti-terrorism.



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Pictures During Search





Sentencing

- March 12, 2009: Grand Jury Indictment
 - Title 50 USC 1701-1705 (Export Violations)
 - Title 18 USC 371 (Conspiracy)
 - Title 18 USC 1001 (False Statements)
- November 2009: Harold Hanson and Ya Ming Hanson pleaded guilty in Federal Court
- February 2010: Both individuals sentenced



Thank You!

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Information from Search Warrant

1. UAV will play the key role in future war
2. Main military countries multiple devote to UAV
3. Foreign countries UAV status and the trend of UAV development
4. Huge Potential of domestic UAV market



Emails

Key Points for Investment

- Now company established R4D Center and Production Base are located at Chang'an industrial Park. The base occupy 43 mu-with the constructional space 25000 square meter
- Intend to invest for occupying the capability to manufacture UAV 300-500 flights per year. In two years, we will be the biggest UAV R&D and Production Base in China.